



## BETTY T. YEE California State Controller

October 31, 2019

To: Certified Public Accountants and their Auditees (Counties, Cities, Towns,  
and Special Districts)

### **Subject: Local Government Audit Advisory for Fiscal Year 2018-19 Audits**

This advisory provides information to counties, cities, towns, and special districts (local governments), and assists independent auditors in performing annual single audits of local governments for fiscal year (FY) 2018-19.

This audit advisory and general guidelines for single audits of local governments are available on the State Controller's Office (SCO) website at [www.sco.ca.gov/aud\\_single\\_audits.html](http://www.sco.ca.gov/aud_single_audits.html).

### **PROCEDURAL**

1. Under Title 2, U.S. Code of Federal Regulations, §200.512, audit reporting packages are due nine months after the entity's fiscal year-end. For most California entities, the reporting package is due March 31 of each fiscal year. Local agencies must submit to the SCO one copy of the audit reporting package by U.S. Postal Service or private carrier, or via File Transfer Protocol. Report submission instructions are posted on the SCO Single Audits – Local Agencies website at [http://www.sco.ca.gov/aud\\_single\\_audits.html](http://www.sco.ca.gov/aud_single_audits.html), under the Submissions category.

Name the electronic report file according to the entity name, document type, and fiscal year-end. Naming convention instructions can be found on SCO's website at [http://www.sco.ca.gov/Files-AUD/SingleAud/sa\\_ftp\\_instructions.pdf](http://www.sco.ca.gov/Files-AUD/SingleAud/sa_ftp_instructions.pdf). For example, the following file names would be used for City of XYZ:

- Financial Report = XYZFSR19.pdf
- Single Audit Report = XYZSAR19.pdf
- Revisions = XYZRevision19.pdf
- Revised Financial Report = XYZRevisedFSR19.pdf
- Revised Single Audit Report = XYZRevisedSAR19.pdf
- Management Letter Report = XYZMgtLtr19.pdf
- Memorandum of Internal Control = XYZMIC19.pdf
- Corrective Action Plan = XYZCAP19.pdf

The electronic audit report files should be in **unsecured** PDF file format. Electronic files submitted in this format facilitate efficient processing of the annual audit reports.

2. The auditor rotation requirements specified in Government Code (GC) §12410.6(b) apply to public accounting firms providing audit services to local agencies. GC §12410.6(b) indicates that commencing with FY 2013-14, a local agency shall not employ a public accounting firm to provide audit services to that local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency for six consecutive fiscal years.

For purposes of calculating the six consecutive fiscal years, the local agency shall not take into account any time that a public accounting firm was employed by that local agency prior to FY 2013-14. The State Controller may waive this requirement if he or she finds that another eligible public accounting firm is not available to perform the audit.

### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD UPDATES FOR FISCAL YEAR 2018-19**

The following Governmental Accounting Standards Board (GASB) statements are effective for the FY 2018-19 financial statement audits:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement is effective for fiscal years beginning after June 15, 2018. Earlier application is encouraged.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
- GASB Statement No. 90, *Majority Equity Interests*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

### **SINGLE AUDITS UNDER THE UNIFORM GUIDANCE**

The following requirements are applicable if the local agency audit is subject to the single audit requirements under Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance):

#### **1. Independent Auditor's Report on the Financial Statements:**

If the *Schedule of Expenditures of Federal Awards* (SEFA) is referenced in the Other Matters section of the report, the auditor should use the following statement: Schedule of Expenditures of Federal Awards, as required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

**2. Schedule of Expenditures of Federal Awards (Uniform Guidance Subpart F—Audit Requirements §200.510[b]):**

- Uniform Guidance removes the previous flexibility available in Office of Management and Budget Circular A-133 and requires the following to be presented on the face of the SEFA:
  - Total amounts provided to subrecipients from each federal program (§200.510[b][4]); and
  - Total federal awards expended for loan or loan guarantee programs (§200.510[b][5]).
- The schedule must include a total for each cluster of programs (§200.510[b][3]).
- The notes to the schedule must include a statement of whether or not the auditee elected to use the 10 percent de minimis indirect cost rate (§200.510[b][6]).

**3. Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance:**

For guidance and examples of reports on compliance with requirements that could have a direct and material effect on each major federal program and on internal control over compliance issued under the audit requirements of Uniform Guidance, refer to the American Institute of Certified Public Accountants' (AICPA) *Government Auditing Standards and Single Audits* with conforming changes as of March 1, 2019.

**4. Schedule of Findings and Questioned Costs:**

- Updated terminology and references have been incorporated into the Summary of Auditor's Results in accordance with Uniform Guidance §200.515(d)(1).
- Findings relating to the financial statements must be reported in accordance with generally accepted government auditing standards (GAGAS).
- Findings and questioned costs for federal awards must include audit findings as defined in Uniform Guidance §200.516(a).

**5. Audit Findings Follow-up:**

- The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements, which are required to be reported in accordance with GAGAS (Uniform Guidance §200.511[a]).
- The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs (Uniform Guidance §200.511[b]).
- At the completion of the audit, the local agency must prepare, in a document separate from the auditor's findings described in Uniform Guidance §200.516, a corrective action plan to address each audit finding included in the current-year auditor's report (Uniform Guidance §200.511[c]).

## **REPORT CERTIFICATION COMPLIANCE REMINDERS**

During the annual audit report certification process, SCO staff members spend a significant amount of time corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2018-19, the SCO requests that auditors adhere to the following requirements when completing their audit reports. Failure to comply with these requirements will result in audit reports being rejected:

1. **Independent Auditor's Report:** The Independent Auditor's Report to the financial statements should refer to the Required Supplementary Information (U.S. Auditing Standards, AICPA clarified [AU-C] 730.07).
2. **Notes to the Financial Statements:** When the audit report provides information on the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the notes to the financial statements must include all of the reporting disclosures for other postemployment benefits.
3. **Federal Compliance Findings:** For single audits under Uniform Guidance, Federal award findings must be presented in accordance with the Uniform Guidance, Subpart F—Audit Requirements, §200.516, as follows:
  - **Reference number(s):** Each audit finding must include a reference number in the format meeting the requirements of the data collection form submission required by Uniform Guidance §200.512 – Report submission, paragraph (b). The format is 201X-XXX.
  - **Federal program(s) information:** Catalog of Federal Domestic Assistance (CFDA) title and number, federal award identification number and year, name of the federal agency, and name of the applicable pass-through entity;
  - **Criteria or specific requirement:** Statutory, regulatory, or other citation;
  - **Condition:** Facts that support the deficiency in the audit finding;
  - **Cause:** Statement of cause that identifies the reason or explanation for the condition or the factors responsible for the finding;
  - **Effect:** Clear, logical link to establish the impact or potential impact of the difference between the condition and criteria;
  - **Questioned costs:** Identification of questioned costs and how they were computed. Known questioned costs must be identified by applicable CFDA number(s) and applicable federal award identification number(s);
  - **Context:** Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit finding represents an isolated instance or a systematic problem. The auditor should report whether the sampling was a statistically valid sample;
  - **Identification as a repeat finding:** Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and, if so, any applicable prior-year audit finding number(s);

- **Recommendation:** Information to prevent future occurrences of the deficiency identified in the audit finding(s); and
  - **Views of responsible officials:** Views of the auditee and planned corrective actions.
4. **Financial Statement Audit Findings:** Each audit finding should be presented in the level of detail as described in *Government Auditing Standards*.

### **OTHER**

The SCO's FY 2018-19 Single Audit Desk Review Checklist will be available on the SCO website at [www.sco.ca.gov/aud\\_single\\_audits.html](http://www.sco.ca.gov/aud_single_audits.html) in November 2019.

If you have any questions or need additional information, please contact the Division of Audits, Single Audits Unit, by telephone at (916) 324-6442, or by email at [singleaudits@sco.ca.gov](mailto:singleaudits@sco.ca.gov).

Sincerely,

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

JLS/lis

20008